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SUBJECT: SAN LUIS POTOSI ECONOMY FORECAST TO IMPROVE; SECURITY STILL  
AN ISSUE

REF: MONTERREY 349

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¶1. (SBU) Summary. During a recent meeting with the Consul General (CG), San Luis Potosi State Secretary for Economic Development Carlos Barcena Pous predicted his state would post an economic upturn by year end, driven by increased industrial production. He readily criticized a tax-holiday plan by the Governor-elect, calling it a wasteful proposal unlikely to generate significant stimulus. In contrast to other sources, Barcena downplayed the state's deteriorating security situation, stating that so far no potential foreign investor had shied away from locating there for this reason. End Summary.

#### Economic Rebound on the Horizon

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¶2. (SBU) At a recent meeting with the Consul General, outgoing San Luis Potosi State Secretary of Economic Development Carlos Barcena Pous predicted that his state's economy would post a strong finish at the year-end, driven by resurging appliance and auto sales in Mexico. However, he said the state economy could slump again in the first quarter of 2010 due to a tightening of the federal budget. Plant expansions, he said, would contribute to an overall strong economic performance in 2010. For example, he noted that GM was currently only using 18 - 20 percent of its production capacity at its plant in San Luis Potosi and predicted that figure could reach as high as 50 percent. (Note: GM's San Luis Potosi plant, which opened in Aug 2008, currently employs about 600 people and manufactures transmissions. End note.)

#### Industries Still Coming

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¶3. (SBU) Barcena claimed that despite some notable job losses and cutbacks, which have cost the state thousands of jobs, companies are continuing with plans to establish operations in the state. He noted that Bechtel will open a facility soon and, due to its location in the geographical center of Mexico, the city of San Luis Potosi is rapidly becoming a logistics hub for

large companies such as Fedex and Kansas City Southern. Barcena said the capital city also appeals to companies due to its low land acquisition costs, moderate climate, and developed infrastructure.

#### Concerns about Tax Holiday

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¶4. (SBU) Governor-elect Toranzo's proposed tax holiday (reftel) could actually be detrimental to state finances, Barcena said, as new industries automatically have a one year exemption from the two percent payroll tax levied by the state. The 'holiday' could actually cut state revenues by as much as \$20 - \$21 million in a period when the federal government will be cutting back revenue sharing to the states due to shrinking revenues, Barcena warned, without having a noticeable impact on job preservation.

#### Security Not an Issue?

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¶5. (SBU) Barcena downplayed the security issues in his state, calling them an "issue of perception," and said that he often avoids the issue when speaking with potential investors. While members of several prominent families have moved to the U.S. to avoid the possibility of being kidnapped, for the typical business executive, this was not a great concern. He explained

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that many potential investors initially don't differentiate the security situation of individual states from the dire image the media portrays of Mexico as a whole. However, once they visit his state, they come away with a more positive opinion, especially in comparison with destinations such as Tijuana and Ciudad Juarez.

#### Comment

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¶6. (SBU) Barcena has served as the state's Secretary of Economic Development (SEDECO) since March 25, 2007, but political observers do not expect him to continue in this post after the state's new administration takes over this fall. Prior to assuming this post, Barcena served as SEDECO's Director of Development and Industrial Promotion. Among his accomplishments as Secretary, Barcena was responsible for attracting investments by General Motors (assembly plant) and Toyota Motor Corporation (national training center).

¶7. (SBU) Meanwhile, in a separate meeting with the CG, state Chief Judge Ricardo Sanchez Marquez described a worsening security environment with an escalation in kidnappings in the capital city of San Luis Potosi (both the capital city and the state share the same name). During a visit to a U.S. company located in the city, EconOff noted extremely stringent security procedures and company executives noted with pride that none of their 400 employees had been kidnapped for ransom. Post believes that Barcena most likely continues to downplay the worsening security situation to avoid dissuading potential

investors, a strategy that could ultimately prove  
counterproductive.  
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